

Management Discussion and Analysis of Result of Operation

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 March 2003. The retained earnings will be used for future business development.

Operational and Business Review

During the year, leveraging our effective business strategies and thorough understanding of customers' needs, we have been able to differentiate ourselves from our competitors in the highly competitive fashion market. The Group is the first mover to adopt a "Unit price throughout the country" marketing strategy, successfully establishing our leading position and build *LeRoi's* prestigious image.

During the year, the Group has been focusing on exploring the market and enhancing the distribution network to ensure the high growth rate of the business. In the past year, the number of Group franchisees increased from 66 to 100, across 18 provinces and 43 cities. The newly opened shops are all located at prime retail areas, with high traffic and easy access. This provides convenience to *LeRoi's* existing customers while also attracting new and potential customers. All the new shops adopt a unified design and employ innovative display ideas. Store designs are attractive and spacious, ensuring that every customer will enjoy the shopping environment. The Group has also decided to renovate all shops, to ensure a unique image and to strengthen *LeRoi's* positioning among customers.

To maintain operational flexibilities and stay in line with market trends, we subcontract our business development operations. Market analysis and development are performed by four sales agents, who have good relationships with our franchisees. Agent functions are divided into three main areas – market analysis, training and market development. By analysing market information with the sales monitoring system, sales agents provide suggestions on procurement, inventory and stock deliveries to franchisees. They also play a key role in logistic management between the franchisees and the Group.

Management Discussion and Analysis of Result of Operation (continued)

Operational and Business Review (continued)

The Group fully recognises the value of a capable and innovative design team in producing successful products for our target markets. With talented designers, *LeRoi* products blend into the modern lifestyle driving fashion trends with bold and creative designs and sophisticated styles. During the year, the Group's talented designers attended major fashion exhibitions around the world, drawing inspiration from international fashion trends and extensive global fashion networks. These activities ensure that each new *LeRoi* collection is current and contemporary.

Comprehensive and dynamic promotional campaigns are also key to our success. We regularly advertise our products through diverse media, including magazines and newspapers, to generate increasing consumer awareness of our products and brandname. Promotional collateral such as posters, fashion catalogs and photo shoots are also provided to franchisees to maximize marketing exposure for the Group's brand and promote our image to consumers.

Duplicating the success of our market positioning and unique "Cutting clothes but not price" and "Unit price throughout the country" marketing strategies, the Group is developing a new line of products under a new and separate brand, "*ajouré*", to target the younger female market, aged 16 to 25. With unique design and cutting, we believe we can increase market share and create additional revenue sources for the Group. During the year, the *ajouré* products were displayed at the corner of a newly opened *LeRoi* shop in Shenzhen to conduct sales tests for *ajouré*. The *ajouré* line, designed to satisfy younger needs, has received an overwhelming initial response.

Furthermore, the Group has launched several new fashion designs under the "*LeRoi*" and "*ajouré*" brand names at exhibitions, followed by market analysis to gain a better understanding of the needs of customers. Exhibitions have been proven to provide excellent opportunities to promote business and recruit more franchisees. During the year, the Group participated in World Boutique and The Chinese International Fashion Exhibition in Hong Kong and Beijing respectively, presenting *LeRoi* stylish 2003 Spring and Summer ladies apparel lines. As we have achieved a number of breakthroughs in the new fashion series in terms of color, cut and pattern, the Group has recruited a number of new franchisees and tackle inquiries on how to become a member franchisee. These highly satisfactory responses reflect the market's acceptance of our new designs for the season.

Management Discussion and Analysis of Result of Operation (continued)

Future Plans and Prospects

The SARS outbreak in Hong Kong and the PRC in 2003 greatly affected consumer spending. Through a series of effective measures adopted by the government, consumer confidence has gradually picked up. With the shortening of the PRC's "Golden Holiday", most mainland people spent within their own country. Responding to this, the Group made strategic adjustments, including the launch of a series of new products and promotion, to stimulate consumer spending and strengthen relationships with customers.

Looking to the future, to capture the enormous business potential in the Greater China Region, the Group will further enhance the distribution network focusing on the northern part of the PRC. We will work hard to continuously attract more potential franchisees seeking the most appropriate shop locations in prime areas. Joining fashion exhibitions provides us with the best chance to attract franchisees and promote our products and brand image. As such, the Group joined "Hong Kong Fashion Week" in July 2003, further enhancing the "LeRoi" and "ajouré" brands and expanding the Group's market share.

In the coming year, the Group will fully launch the new "ajouré" brand. The Group expects the new brand to achieve as outstanding results as "LeRoi". We believe the new brand will exploit an additional customer segment in the market. This will not only strengthen the Group's penetration in the different market segments, but also expand income sources and increase the profitability of the Group.

With our wide-ranging experience and well-established branding, the Group will develop further business at a rapid pace and continue to lead fashion trends in the PRC.

Liquidity and Financial Resources

For the year ended 31 March 2003, the Group recorded a turnover of HK\$162.9 million. Net profit from ordinary activities attributable to shareholders escalated 22% to HK\$36.0 million, 3% more than the forecasted net profit of HK\$35.0 million, as stated in the Prospectus. Earnings per share was HK4.96 cents.

Management Discussion and Analysis of Result of Operation (continued)

Liquidity and Financial Resources (continued)

As at 31 March 2003, the Group had net current assets of HK\$76.9 million (2002: HK\$36.3 million). The Group generally finances its operations with internally generated resources and maintains a strong financial position. As at 31 March 2003, the Group had cash and bank deposits of HK\$44.9 million (2002: HK\$0.5 million). The Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2003 (2002: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2003, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed. As at 31 March 2003, the Group was free from any mortgage charge on the Group's assets. The management believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

Employee Benefits

As at 31 March 2003, the Group had 28 employees. The employees are remunerated based on their work performance, work and professional experiences and the prevailing industry practice. The Group operates a Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees who are eligible to participate in the Scheme.

Share Option Scheme

On 8 October 2002, a share option scheme which is in compliance with amended Chapter 17 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited was adopted. As at 31 March 2003, no share options have been granted under the share option scheme.

Contingent Liabilities

At the balance sheet date, the Group and the Company did not have any significant contingent liabilities.